



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: October 2, 2002 REPORT NO. 02-220

ATTENTION: Honorable Mayor and City Council
Docket of October 7, 2002

SUBJECT: Mission Bay Park and Regional Park Improvement Funds

REFERENCE: City Manager's Report 01-013
Coastal Commission Certification of Local Coastal Program (LCP)
Amendment #2-2001C (Mission Bay Park/Sea World Master Plan
Updates)

SUMMARY

Issues - Should the City Council adopt an ordinance which amends Chapter 2, Article 2, Division 2 of the San Diego Municipal Code to include Section 22.0229 titled Preparation of the Annual Budget: Mission Bay Park and Other Regional Park Improvements, which appropriates funds to a Mission Bay Improvement Fund for improvements for Mission Bay Park, and also appropriates funds to a Regional Park Improvement Fund for improvements to other San Diego Regional Parks? Should 25 percent of the lease revenues in excess of \$20 million collected from leases of City-owned property within Mission Bay Park, not including Transient Occupancy Taxes, Sales Taxes, Property Taxes or other revenues, be allocated to each of these improvement funds?

Manager's Recommendation – Approve an Ordinance for Fiscal Years 2004-2013 establishing a Mission Bay Improvement Fund, and Regional Park Improvement Fund to be funded with revenues allocated from the annual lease revenue in excess of \$20 million collected from leases of City owned property within Mission Bay Park. An amount equal to 25 percent of excess lease revenue shall be allocated annually to the Mission Bay Improvement Fund to be used only for permanent public capital improvements and deferred maintenance of existing facilities in Mission Bay Park, pursuant to the Mission Bay Master Plan. Capital improvements on Fiesta Island and South Shores shall be given priority. An amount equal to 25 percent of excess lease

revenue shall also be allocated annually to the Regional Park Improvement Fund. The annual allocation to each fund shall not exceed \$2.5 million in any fiscal year. The Mayor and City Council will allocate the remaining 50 percent of excess lease revenue to the General Fund for use as directed.

Other Recommendations - None

Fiscal Impact - Future impacts on the General Fund will depend on the growth of Mission Bay lease revenue as well as additional revenue potential resulting from new development and other lease revenue opportunities within Mission Bay. Several new developments for Mission Bay are currently in the planning stages.

BACKGROUND

On September 11, 2002 the Rules, Finance and Intergovernmental Relations Committee discussed a proposal to add Municipal Code Section 22.0229 to include, in the annual budget process, improvement funds for Mission Bay Park and regional parks. The Rules Committee voted to forward this issue for City Council consideration.

At the Rules Committee meeting, Councilmember Byron Wear introduced the ordinance and he and the other Committee members discussed the importance of San Diego regional parks, and Mission Bay Park in particular, to the character and economy of San Diego. Councilmember Wear noted that there are significant unfunded needs at Mission Bay Park, Balboa Park, and the San Diego River Park, and the importance of following through with the Mission Bay Master Plan requirements. Also discussed was the recent decision by the California Coastal Commission, that as part of their approval of the expansion of Sea World, the City of San Diego implement a capital improvements program to mitigate the impacts on Mission Bay from the Sea World expansion. Councilmember Wear emphasized that the proposed funds would provide for capital improvements to the parks and would not supplant operational dollars already in place.

Subject only to conflicting requirements arising from the City's tideland trustee responsibilities for management of Mission Bay Park tidelands as mandated in Public Resources Code section 6306, the Rules Committee recommendation requires the City Manager, in preparing the Annual City Budgets for Fiscal Years 2004-2013, to establish a Mission Bay Improvement Fund and a Regional Park Improvement Fund to be funded with appropriations from lease revenues collected from City-owned property leases within Mission Bay Park, in excess of \$20 million. This will not include Transient Occupancy Taxes, Sales Taxes, Property Taxes, or any other revenues. The Mission Bay Improvement Fund will be annually funded with an amount equal to 25 percent of the annual excess lease revenues from Mission Bay above \$20 million. However, the annual appropriation to the Mission Bay Improvement Fund will not exceed \$2.5 million in any fiscal year. The Regional Park Improvement Fund will be annually funded with an amount equal to 25 percent of the annual excess lease revenues from Mission Bay above \$20 million. However, the annual appropriation to the Regional Park Improvement Fund will also not exceed \$2.5 million in any fiscal year.

The remaining 50 percent of the annual lease revenue above \$20 million will be deposited into the General Fund to continue to be used for citywide services including items such as operation and maintenance of Mission Bay and other regional parks.

The Mission Bay Improvement Fund will be used only for permanent public capital improvements and deferred maintenance of existing facilities in Mission Bay Park pursuant to the Mission Bay Park Master Plan. Capital improvements on Fiesta Island and South Shores will be given priority.

San Diego regional parks include Balboa Park, Mission Trails Regional Park, Otay River Valley Park, San Diego River Park, the Multiple Species Conservation Program open space areas, and coastal beaches and coastal parks. The Regional Park Improvement Fund will be used only for permanent public capital improvements, planning, deferred maintenance and land acquisitions for the San Diego regional parks.

The allocations to the Mission Bay Park Fund and the Regional Park Improvement Fund will continue for a period of ten years, beginning with the Fiscal Year 2004 budget and terminating with the Fiscal Year 2013 budget. If the City Manager determines that anticipated revenues in any fiscal year are insufficient to maintain existing City services, the City Manager may ask the City Council to temporarily suspend appropriations to these two funds for the upcoming fiscal year. A majority vote of the City Council can temporarily suspend appropriations for that fiscal year.

Revenues and Expenditures

As shown in Table 1, Mission Bay generates a significant amount of revenue each year from commercial and non-profit leaseholders, which are deposited in the General Fund. This revenue, and other park revenue including Transient Occupancy Taxes (TOT) and sales tax, are currently used for all City park projects on the basis of need rather than location.

Fiscal Year 2003 lease revenue for Mission Bay Park is estimated to be approximately \$20 million, an increase of about \$1 million from Fiscal Year 2002. Future years financial impact will depend on the growth of lease revenues as well as the potential lease revenue derived from planned new development.

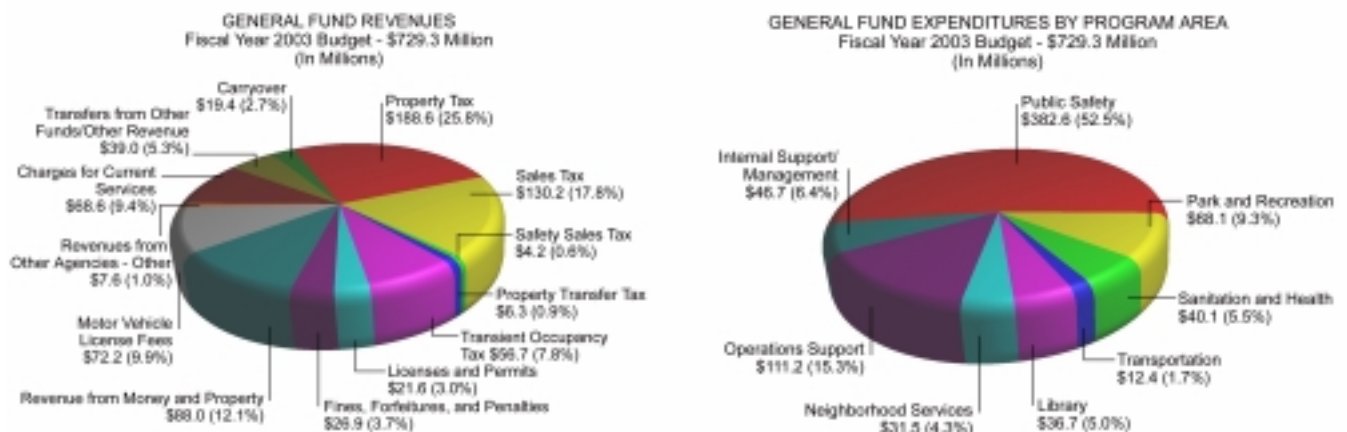
Table 1 - Estimated Lease Revenue - Mission Bay Park

	2000 Actual	2001 Actual	2002 Actual	2003 Budget
Leases	\$17,658,000	\$19,134,617	\$19,085,000	\$20,085,000

Since 1988 almost \$300 million has been spent on capital projects for Mission Bay Park including moving sludge facilities out of the Park making more recreational land available. Operating expenditures at Mission Bay Park have averaged approximately \$17 million over the last three years. This includes services provided by the Park and Recreation Department, public safety provided by the Police and Fire and Life Safety Services Departments, and general maintenance provided by the General Services and Transportation Departments.

DISCUSSION

The City receives 17.1 percent of the local property taxes and 13 percent of the local sales taxes. As illustrated in the pie charts below, these sales and property taxes are projected to make up about 43.6 percent of the City's General Fund revenue in Fiscal Year 2003. Expenditures for Police and Fire made up an estimated 52.5 percent of General Fund expenditures in Fiscal Year 2003. Whereas at one time, sales and property taxes were sufficient to cover the cost of public safety (police, fire and emergency services), they currently do not and must be supplemented by other revenues in the General Fund. Therefore, the Mayor and City Council must continue to have the greatest flexibility to allocate funding given competing operational priorities such as public safety, deferred maintenance and retirement contributions.



The City of San Diego has six budget principles, approved by the Rules Committee and endorsed by the Mayor's Blue Ribbon Committee, that have guided the City in increasing reserves, reducing reliance on one-time revenues and providing greater discretion over City revenues. Since these principles were introduced, the City's General Fund reserves are the highest level in the City's history. Earmarking lease revenue to fund a new Mission Bay Park Improvement Fund and Regional Park Improvement Fund would be inconsistent with these principles.

One of the budget principles states that discretionary fund revenues should not be earmarked, thereby allowing the Mayor and City Council maximum flexibility in funding decisions on an annual basis. This is especially important during economic downturns when discretionary revenue does not meet the total requirements for essential City services. It has consistently been the City Manager's recommendation to the Mayor and City Council that, in an effort to maintain fiduciary responsibility, earmarking of future revenues be minimized.

Increasing the percentage of discretionary funds that are designated for specific projects imposes restrictions on the Mayor and City Council, limiting their discretion in prioritizing expenditures based upon current and anticipated needs. As part of the budget process, the Mayor and City Council evaluate and prioritize the revenues available and the expenditures

required to fund essential City services. The funding level for Mission Bay Park and San Diego Regional Park Improvements is considered during every annual budget process.

CONCLUSION

Mission Bay Park and San Diego's regional parks are important assets to the City and should continue to receive the strong support of the Mayor and City Council. Earmarking revenues for Mission Bay and regional parks may constrain the Mayor and City Council's ability to meet their fiscal responsibility to appropriately fund City services. It continues to be prudent for the Mayor and City Council to review funding for each project, annually, or on an as-needed basis and within the context of the prevailing economy. Continuing to allow the Mayor and City Council to make spending decisions for all City parks, including Mission Bay Park and regional parks will ensure that revenues are carefully and effectively applied for the benefit of all citizens using City parks.

The Rules Committee proposal will allow the City Manager to determine if anticipated revenues in any fiscal year are insufficient to maintain existing City services, and recommend to the City Council that appropriations to the Mission Bay Improvement Fund and Regional Park Improvement Fund be temporarily suspended. A majority vote of the City Council can temporarily suspend appropriations for that fiscal year. This action, therefore, will not abrogate or alter the duties, obligations, and prerogatives of the City Council in the preparation and passage of the Annual Appropriation Ordinance pursuant to San Diego Charter section 71.

ALTERNATIVE

Continue to allocate General Fund revenue for Mission Bay Master Plan projects and regional parks as directed by the Mayor and City Council in accordance with established budget principles.

Respectfully submitted,

Lisa Irvine
Financial Management Director

Approved: Michael T. Uberuaga
City Manager

IRVINE/SDB

Attachment: 1. [Proposed Mission Bay Park and Regional Park Improvement Funds Ordinance](#)